

**REPORT OF THE AUDIT OF THE
CASEY COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
April 9, 2006 Through April 14, 2007**



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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CASEY COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
April 9, 2006 Through April 14, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for Casey County Sheriff for the period April 9, 2006 through April 14, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,411,364 for the districts for 2006 taxes, retaining commissions of \$141,088 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,267,836 to the districts for 2006 Taxes. Taxes of \$12,320 are due to the districts from the Sheriff and refunds of \$12,269 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Strengthen Internal Controls Over Receipts And Disbursements
- The Sheriff's Tax Account Had A Negative Balance On Four Consecutive Days During The Year
- Unexplained Receipts Of \$2,604 Should Be Escrowed
- The Sheriff Should Keep An Accurate Record Of Receipts And Disbursements

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller Secretary
Finance and Administration Cabinet
Honorable Ronald Wright, Casey County Judge/Executive
Honorable Jerry Coffman, Casey County Sheriff
Members of the Casey County Fiscal Court

Independent Auditor's Report

We have audited the Casey County Sheriff's Settlement - 2006 Taxes for the period April 9, 2006 through April 14, 2007. This tax settlement is the responsibility of the Casey County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Casey County Sheriff's taxes charged, credited, and paid for the period April 9, 2006 through April 14, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated February 8, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Ronald Wright, Casey County Judge/Executive
Honorable Jerry Coffman, Casey County Sheriff
Members of the Casey County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Strengthen Internal Controls Over Receipts And Disbursements
- The Sheriff's Tax Account Had A Negative Balance On Four Consecutive Days During The Year
- Unexplained Receipts of \$2,604 Should Be Escrowed
- The Sheriff Should Keep An Accurate Record Of Receipts And Disbursements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

February 8, 2008

CASEY COUNTY
JERRY COFFMAN, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period April 9, 2006 Through April 14, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 251,080	\$ 742,324	\$ 1,419,149	\$ 465,772
Tangible Personal Property	10,939	39,936	61,830	57,386
Fire Protection	4,421			
Franchise Taxes	44,081	147,939	247,021	
Additional Billings	117	347	663	218
Oil and Gas Property Taxes	9	26	49	16
Limestone, Sand and Mineral Reserves	76	224	428	140
Penalties	2,298	6,729	12,841	4,279
Adjusted to Sheriff's Receipt	(82)	(227)	(468)	(154)
Gross Chargeable to Sheriff	<u>312,939</u>	<u>937,298</u>	<u>1,741,513</u>	<u>527,657</u>
<u>Credits</u>				
Exonerations	1,010	2,985	5,701	1,890
Discounts	3,986	11,756	22,134	7,830
Delinquents:				
Real Estate	4,144	12,190	23,305	7,649
Tangible Personal Property	13	48	74	85
Franchise Taxes	<u>335</u>	<u>1,059</u>	<u>1,849</u>	
Total Credits	<u>9,488</u>	<u>28,038</u>	<u>53,063</u>	<u>17,454</u>
Taxes Collected	303,451	909,260	1,688,450	510,203
Less: Commissions *	<u>13,184</u>	<u>38,395</u>	<u>67,538</u>	<u>21,971</u>
Taxes Due	290,267	870,865	1,620,912	488,232
Taxes Paid	302,362	870,296	1,607,622	487,556
Refunds (Current and Prior Year)	<u>174</u>	<u>563</u>	<u>976</u>	<u>676</u>
Due Districts or (Refund Due Sheriff) as of Completion of Audit	<u>\$ (12,269)</u>	<u>\$ 6</u>	<u>\$ 12,314</u>	<u>\$ 0</u>

*and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

CASEY COUNTY
JERRY COFFMAN, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES
For The Period April 9, 2006 Through April 14, 2007
(Continued)

*Commissions:

10% on	\$	10,000
4.25% on	\$	1,613,315
4% on	\$	1,788,049

**Special Taxing Districts:

Library District	\$	<u>6</u>
Due District	\$	<u><u>6</u></u>

CASEY COUNTY
NOTES TO FINANCIAL STATEMENT

April 14, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CASEY COUNTY
NOTES TO FINANCIAL STATEMENT
April 14, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 14, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 29, 2006 through April 14, 2007.

Note 4. Interest Income

The Casey County Sheriff earned \$6,959 as interest income on 2006 taxes. The Sheriff distributed interest to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of January 3, 2008, the Sheriff owed \$620 in interest to the school district and overpaid \$534 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Casey County Sheriff collected \$19,903 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of January 3, 2008 the Sheriff remitted the total amount collected in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Casey County Sheriff collected \$2,430 of advertising costs and \$2,430 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office. As of January 3, 2008 the Sheriff remitted the total amount collected in advertising costs to the county and the total amount collected in advertising fees to his fee account.

Note 7. Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be remitted to the Kentucky State Treasurer. For the 2006 taxes, the Sheriff had \$2,604 in unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ronald Wright, Casey County Judge/Executive
Honorable Jerry Coffman, Casey County Sheriff
Members of the Casey County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Casey County Sheriff's Settlement - 2006 Taxes for the period April 9, 2006 through April 14, 2007, and have issued our report thereon dated February 8, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Casey County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Casey County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Casey County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Sheriff Should Strengthen Internal Controls Over Receipts And Disbursements
- The Sheriff's Tax Account Had A Negative Balance On Four Consecutive Days During The Year



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Casey County Sheriff's Settlement – 2006 Taxes for the period April 9, 2006 through April 14, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- Unexplained Receipts Of \$2,604 Should Be Escrowed
- The Sheriff Should Keep An Accurate Record Of Receipts And Disbursements

The Casey County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Casey County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

February 8, 2008

COMMENTS AND RECOMMENDATIONS

CASEY COUNTY
JERRY COFFMAN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 9, 2006 Through April 14, 2007

STATE LAWS AND REGULATIONS:

Unexplained Receipts Of \$2,604 Should Be Escrowed

The Sheriff should deposit any unexplained receipts in an interest bearing account. According to KRS Chapter 393, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2006 taxes, the Sheriff had \$2,604 in unexplained receipts. Therefore, we recommend the Sheriff deposit the above amount into an escrow account and submit a written report to the Treasury

Sheriff's Response: Will do this.

The Sheriff Should Keep An Accurate Record Of Receipts And Disbursements

The Sheriff did not maintain a detailed record of receipts or disbursements. Auditors were unable to determine the amounts collected for add on fees, advertising fees and costs, and other charges. In addition, the Sheriff transferred lump sum amounts as needed to his fee account, and did not categorize these payments. According to KRS 43.075, the official should comply with the requirements of the uniform system of accounts adopted under KRS 68.210. The Sheriff should maintain an accurate record of receipts by source and amount. Also, the Sheriff should record all checks individually by payee, check number, amount, and purpose. The Sheriff should remit the amounts due to the fee account on a monthly basis.

Sheriff's Response: I will try and do everything I possibly can to help do things right and I know our bookkeeper and deputy sheriff will also.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

The Sheriff Should Strengthen Internal Controls Over Receipts And Disbursements

During our evaluation of internal controls, we noted the following control deficiencies:

- The Sheriff does not issue and sign all checks. The bookkeeper signs the checks and no co-signature is required.
- Incoming mail is opened and listed by the bookkeeper, who has access to the cash receipt records
- Bookkeeper records cash receipts and prepares the daily deposits.
- Bookkeeper has access to cash, signs checks, records cash transactions and performs monthly bank reconciliations.
- The Sheriff's bank has not been instructed not to cash checks payable to the Sheriff.
- Bookkeeper prepares the checks and controls the purchasing and receiving functions.
- The Sheriff does not compare the monthly tax reports to the receipts and disbursements ledgers.
- The Sheriff does not have compensating or alternative controls and procedures to offset lack of segregation of duties.

CASEY COUNTY
JERRY COFFMAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 9, 2006 Through April 14, 2007
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(CONTINUED)

The Sheriff Should Strengthen Internal Controls Over Receipts And Disbursements (Continued)

- The Sheriff should be sufficiently involved in the day-to-day operations to identify significant variances from expectations.
- The Sheriff is not adequately involved in designing and approving accounting system procedures.
- The Sheriff does not approve journal entries that are not standard entries.

Compensating controls are controls that limit the severity of a control deficiency by mitigating the effects. However, they do not eliminate the control deficiency. The Sheriff could offset the lack of proper segregation of duties by performing the following procedures:

- The Sheriff should have strong and direct supervision over receipts by recounting and depositing cash, performing surprise cash counts, agreeing daily tax collection reports to the receipt ledger and deposit slips, and agreeing monthly tax reports to receipts ledger and disbursements ledger.
- The Sheriff should have strong and direct supervision over disbursements by ensuring that all checks are signed by two people, with one being the Sheriff, examining the tax distribution prepared by the bookkeeper, personally delivering tax distribution checks and monthly tax reports to the taxing districts, and receiving a signed receipt documenting delivery.

Sheriff's Response: Will try & do this.

The Sheriff's Tax Account Had A Negative Balance On Four Consecutive Days During The Year

During our review and testing of cash receipts and disbursements, it was noted that in February 2007 the Sheriff's tax account had a negative balance on four consecutive days. On February 12 the bank balance was (\$20,850), on February 13 (\$12,941.19), on February 14 (\$8,571.84), and on February 16 (\$6,271.63). We recommend that the Sheriff establish and implement internal control procedures over the disbursement function to ensure that checks are not drawn on any account where funds are insufficient to cover checks written.

Sheriff's Response: Will try to make sure this doesn't happen again.

